



Weekly Market Insight

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NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Canada: A Leader in a Mediocre Class of 2010

By Benjamin Tal and Krishen Rangasamy

Like an average student in a class of underachievers, Canada, with its 2% growth next year, will manage to outpace all of its G-7 peers. Government spending will of course be a major driver, but that's not unique to Canada. What distinguishes Canada from the pack is the relative resiliency of the household sector, making Canadian monetary policy more effective in stimulating housing and consumption.

As in the US, near term economic reports could raise eyebrows by suggesting a sharp snap back in activity. While we have raised our outlook for the balance of the year, a return to sluggish growth stateside, and some features of the US rebound that will weigh on Canada's exports, will see growth fall back below potential in 2010.

Canada Outperforms Despite Sub-Par Recovery

The projected 2.3% decline in Canada's real GDP this year will end up being the steepest annual decline since 1982. And the recovery will be nothing to write home about. While the second half of 2009 will see real GDP rise by an annual rate of roughly 3% thanks to a one-time inventory refill, quarterly growth rates will revert to the 2% range in the first half of next year, only half the pace projected by the Bank of Canada. Even so, Canada's growth in 2010 will be half a percentage point stronger than the projected growth for the US, and more than double the growth that most eurozone economies will see.

So what makes Canada special? A sounder banking system and mortgage market lessened the blow of the global financial shock. That left a healthier consumer and business sector, setting Canada up to outperform in 2010. For the first time on record, business bankruptcies in Canada have not risen during a recessionary year—a trajectory that contrasts with the current situation in the US, where business bankruptcies are rising at a rate not seen since 1975. Ditto for the duration of unemployment, employment quality, excess cash position, income growth and many other indicators that clearly demonstrate Canada's better position.

Consumer Psyche Key to Canada

And those small pockets of success made a significant difference in how the recession impacted the psyche of consumers in Canada. After falling during the recession, consumer confidence in Canada has made a strong comeback, as opposed to the US where confidence has only improved marginally from a deeper recessionary hit. Higher confidence means that every basis point cut in interest rates by the Bank of Canada is achieving much more stimulus than stateside as Canadians are more willing to take on debt. That can be seen in the still-strong credit numbers in Canada and less-than-stellar credit conditions in the US. So, not only is the financial sector in Canada in a much better position to provide credit than in other industrialized countries, but Canadian consumers are in a better position to receive that credit, having not been as shocked on their balance sheets by housing market developments.

Overall we expect the consumer to account for roughly half of overall GDP growth in the second half of 2009 through 2010—well below a typical contribution—but notably above the one-third contribution projected stateside.

Lead Actor in Recovery: Ottawa

With consumers still spending, but unable to match past performance, Ottawa is stepping forward aggressively. Only twice before in the post war period has government taken the lead in driving growth, and that will happen again in 2010 thanks to an unprecedented amount of fiscal stimulus (almost \$40 bn or about 2.5% of GDP). While more than half of the stimulus money has been *allocated* to 2009, more importantly the bulk of the stimulus cash is set to be *spent* in 2010. Hence, with the maximum economic impact of the stimulus being felt next year, we estimate that roughly 55% of the expansion in output over the Q309 to Q410 period will be attributed to government. That compares with the meagre 6% average contribution by government in the recoveries of 1983/84 and 1991/92. The roughly tenfold difference is attributable not only to the massive size of the stimulus, but also to the more meagre role to be played by trade and business investment, sectors that are traditionally net contributors to growth in the recovery period.

Trade: A Pop and a Fizzle

Exports will surge in the near term, but protectionism, a strong C\$, and the nature of the recovery in the US will prevent Canadian exporters from fully capitalizing on US growth in 2010.

American consumers, which have been the main engine of US growth and Canadian exports in the past, will be taking a backseat to government spending in the initial stages of this recovery. But what's spent by the US government will have minimal impact on Canadian exports. We estimate that American industries benefiting from the stimulus typically import only 1.7% of their inputs from Canada, compared to the 2.3% overall Canadian share in US GDP inputs (see *Economic Insights*, August 2009).

Add "Buy America" rules and a strong Canadian dollar to the mix, and the ride through the early stages of the recovery period will be a bumpy one for exporters. Imports, while following a similar path to exports in 2010, are set to outpace the latter thanks to relatively resilient Canadian consumption and inventory restocking. That will result in trade being a net drag on GDP growth next year.

Business Investment Constrained by Soft Corporate Profits and Overcapacity

Joining trade in the 2010 ugly parade will be business capital investment, which is set to weigh on growth. Since reaching the cycle peak in the final quarter of 2007, real fixed business investment hasn't dropped as fast as real corporate profits, so much so that the gap between the two is now the largest since the early 1990's recession. A levelling off in commodities and the pinch on exports from a strong C\$ will delay a rapid recovery in profits until 2011. That, coupled with considerable excess capacity, will curtail growth in capital budgets in the coming year.

All told, the public sector will do its job to sustain the economy in 2010, but Canada's secret weapon will be the effectiveness of its monetary policy. Less-traumatized consumers will be able to squeeze any stimulus potential from the Bank of Canada's unprecedented accommodative position. That will result in consumer spending rising by 2% in 2010—not impressive relative to any other recovery year, but exceptional compared to the performance we will see in other key industrialized countries.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	18	19	19	28	137
10Y / 2Y SPREAD (bps)	244	253	247	253	152
2Y SWAP SPREAD (bps)	31	33	36	39	95
3M T-Bill (%)	0.12	0.11	0.12	0.16	1.45
LIBOR 1 MONTH (%)	0.24	0.24	0.25	0.27	2.49
LIBOR 3 MONTH (%)	0.30	0.30	0.31	0.44	2.82
2-YR BOND (%)	0.88	0.89	0.90	1.13	2.20
5-YR BOND (%)	2.26	2.31	2.30	2.62	2.95
10-YR BOND (%)	3.32	3.41	3.37	3.66	3.72
A Rated / 10Y TREASURY (bps)	197	202	199	233	243
B Rated / 10Y TREASURY (bps)	684	681	674	708	596
BB Rated / 10Y TREASURY (bps)	533	533	534	562	496
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	186	163
CDOR 3 MONTH (%)	0.50	0.50	0.50	0.60	3.52
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	30	29	29	37	115
10Y / 2Y SPREAD (bps)	211	213	210	220	82
2-YR BOND (%)	1.20	1.23	1.28	1.32	2.78
5-YR BOND (%)	2.56	2.58	2.61	2.62	3.09
10-YR BOND (%)	3.32	3.36	3.37	3.52	3.60
A Rated / 10Y TREASURY (bps)	129	134	122	145	171
BBB Rated / 10Y TREASURY (bps)	193	198	186	195	268
CAN Sovereign Agency / 10Y TREASURY (bps)	53	57	47	57	65
Provincial / 10Y TREASURY (bps)					
ALTA	93	97	86	87	83
BC	97	102	90	90	85
MAN	89	95	82	87	91
NB	91	96	86	87	90
PEI	122	129	119	117	92
NFLD	123	128	116	117	95
ONT	105	110	99	98	99
QUE	108	113	104	105	99
SASK	99	104	89	85	90
NS	109	115	104	104	96
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	72.5	72.2	67.7	70.6	101.2
NATURAL GAS (US\$ / MMBtu)	3.3	2.9	2.6	3.4	7.4
SILVER (US\$ / t oz.)	16.9	16.4	16.0	14.9	10.7
GOLD (US\$ / t oz.)	1009.7	993.3	989.3	954.7	761.0
WHEAT (US¢ / bu.)	432.8	429.0	451.3	489.0	703.8
SOYBEANS (US¢ / bu.)	969.3	965.0	983.8	1234.3	1490.0
SUGAR (US¢ / lb.)	22.2	21.2	21.6	22.5	12.4
CORN (US¢ / bu.)	309.3	308.3	308.0	333.5	547.5
FX					
C\$ / US\$	1.077	1.085	1.090	1.085	1.060
US\$ / EURO	1.456	1.455	1.423	1.431	1.422
C\$ / EURO	1.569	1.578	1.552	1.552	1.507
YEN / US\$	90.708	91.820	92.870	95.600	107.940
US\$ / BRITISH POUND	1.667	1.665	1.634	1.662	1.794
SWISS FRANCS / US\$	1.039	1.041	1.066	1.070	1.131

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, September 10, 2009

Index (Region/Country)	DAILY					52 WEEK				3-yr % chg
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
Global										
The Global Dow (World)	1880.55	1860.16	1878.66	15.88	0.85	23.1	2218.81	1139.9	-13.8	0.1
The Global Dow (Euro) (World)	1214.56	1202.89	1214.56	11.67	0.97	17.5	1473.92	849.42	-17.6	-4.4
DJ Global Index (World)	215.16	212.57	214.96	1.79	0.84	25	241.7	130.29	-9.5	-5
DJ Global ex U.S. (World)	192.61	190.4	192.19	1.26	0.66	31	207.04	111.8	-4.4	-4
MSCI EAFE* (World)	n.a.	n.a.	1541.09	7.61	0.5	24.5	1713.88	911.39	-7	-6
Asia Pacific										
DJ Asia-Pacific (Asia-Pacific)	120.38	118	120.16	1.81	1.53	28.4	120.17	73.76	1.6	-4.1
All Ordinaries (Australia)	4578.8	4528.4	4573.5	46.4	1.02	25	5050.1	3111.7	-6.1	-3.3
S & P/ASX 200 (Australia)	4577.3	4523.3	4570.8	48.6	1.07	22.8	5020.5	3145.5	-5.1	-3.6
DJ CBN China 600 (China)	25612.9	25188.99	25299.08	-244.23	-0.96	71.3	29890.92	12886.57	53.1	31.8
Dow Jones China 88 (China)	273.93	269.58	270.66	-2.64	-0.97	65.4	327.69	149.53	41	32.7
Shanghai Composite (China)	2958.95	2911.21	2924.88	-21.38	-0.73	60.6	3471.44	1706.7	40.7	20.6
Hang Seng (Hong Kong)	21322.55	21020.92	21069.56	218.52	1.05	46.4	21074.21	11015.84	8.7	7.1
Bombay Sensex (India)	16434.77	16166.42	16216.86	33.31	0.21	68.1	16216.86	8160.4	13.2	10.8
Jakarta Composite (Indonesia)	2422.58	2383.75	2411.86	28.53	1.2	77.9	2411.86	1111.39	29	18
Nikkei 300 (Japan)	193.02	190.24	192.91	4.01	2.12	10.2	241.27	140.76	-19.1	-15.4
Nikkei Stock Avg (Japan)	10521.14	10382.99	10513.67	201.53	1.95	18.7	12214.76	7054.98	-13.1	-13.2
Topix Index (Japan)	959.17	946.13	958.49	18.65	1.98	11.6	1177.2	700.93	-17.6	-16.1
Kuala Lumpur Composite (Malaysia)	1210.11	1196.46	1201.28	4.82	0.4	37	1202.07	829.41	15.4	7.9
NZSX-50 (New Zealand)	3127.78	3116.41	3126.68	10.27	0.33	15.1	3361.69	2417.95	-6.2	-4
KSE 100 (Pakistan)	9127.08	8965.59	8996.19	-88.79	-0.98	53.4	9263.39	4815.34	-2.9	-3.4
Manila Composite (Philippines)	2839.64	2824.33	2835.91	6.5	0.23	51.4	2886.96	1704.41	6.1	6.1
Straits Times (Singapore)	2707.24	2676.05	2682.02	31.54	1.19	52.3	2682.02	1456.95	5.5	2.7
Kospi (South Korea)	1644.68	1613.76	1644.68	36.91	2.3	46.3	1644.68	938.75	14	6.7
Colombo Stock Exchange (Sri Lanka)	2815.01	2764.74	2791.44	11.65	0.42	85.7	2791.44	1484.53	17.7	7.6
Weighted (Taiwan)	7507.49	7286.82	7332.08	81.36	1.12	59.7	7332.08	4089.93	17.3	3.1
SET (Thailand)	710.62	699.7	703.09	7.5	1.08	56.3	703.09	384.15	8.7	0.5
Europe										
DJ Stoxx 600 (Europe)	241.61	238.45	240.47	0.38	0.16	22.1	280.41	157.97	-12.8	-10.1
DJ Stoxx 50 (Europe)	2448.14	2412.69	2434.68	2.14	0.09	17.9	2858.68	1614.75	-13.3	-11.2
DJ Euro Stoxx 50 (Euro zone)	2840.1	2794.88	2817.5	-3.08	-0.11	14.9	3278.02	1809.98	-12.6	-9.1
DJ Euro Stoxx (Euro zone)	264.53	260.92	262.78	0.13	0.05	17.9	309.23	169.38	-13.6	-9.5
ATX (Austria)	2547.47	2520.78	2521.26	-5.76	-0.23	44	3321.2	1411.95	-22.6	-12.1
Bel-20 (Belgium)	2461.97	2427.42	2450.76	4.12	0.17	28.4	3080.6	1527.27	-18.9	-14.2
PX 50 (Czech Republic)	1166.7	1147.2	1147.5	-5.4	-0.47	33.7	1316.2	628.5	-11.2	-7.9
OMX Copenhagen (Denmark)	319.53	315.03	317.16	0.65	0.21	40.2	371.26	193.26	-11.5	-4.9
OMX Helsinki (Finland)	6521.93	6420.89	6450.84	19.95	0.31	19.4	7800.92	4110.31	-15.5	-9.1
CAC 40 (France)	3731.92	3679.21	3705.87	-1.82	-0.05	15.2	4332.66	2519.29	-12.8	-9.9
DAX (Germany)	5626.97	5547.37	5594.77	20.51	0.37	16.3	6234.89	3666.41	-9.5	-1.2
BUX (Hungary)	19411.86	18919.19	19032.99	15	0.08	55.5	19882.17	9461.29	-2.5	-4.6
FTSE MIB (Italy)	23025.53	22593.88	22849.87	47.83	0.21	17.4	28372	12621	-18.2	-15.5
AEX (Netherlands)	307.1	302.85	305.97	1.72	0.57	24.4	399.57	199.25	-22.1	-13
All-Shares (Norway)	365.08	357.22	360.24	-1.08	-0.3	33.3	431.24	232.29	-13.9	-6.4
WIG (Poland)	38057.85	36896.88	37019.72	-514.8	-1.37	36	39185.36	21274.28	-5.2	-5.7
PSI 20 (Portugal)	8089.27	8000.04	8070.07	71.01	0.89	27.3	8356.23	5743.09	-2.1	-6.8
DJ Russia Titans 10 (Russia)	4846.91	4591.67	4598.72	-78.25	-1.67	70.3	5132.01	2216.22	6.7	-6.1
RTS Index (Russia)	1175.24	1159.32	1163.76	3.96	0.34	84.2	1341.75	498.2	-10.3	-9.9
IBEX 35 (Spain)	11516.7	11260	11340.8	-121.2	-1.06	23.3	11557.9	6817.4	1.8	-2.1
SX All Share (Sweden)	286.93	282.19	284.06	-1.24	-0.43	39.1	285.3	176.54	7	-4.1
Swiss Market (Switzerland)	6236.22	6174.85	6208.43	6.39	0.1	12.2	7215.5	4307.67	-12.2	-8.7
Istanbul National 100 (Turkey)	45139.09	44130.19	44924.12	338.98	0.76	67.2	48073.35	21228.27	20.2	6.3
FTSE 100 (U.K.)	5035.3	4956.6	4987.68	-16.62	-0.33	12.5	5416.7	3512.1	-6.2	-5.3
FTSE 250 (U.K.)	9223.1	9081.95	9125.71	-11.34	-0.12	43.5	9137.05	5491.46	2.8	-1.7
Americas										
DJ Americas (Americas)	275.18	270.65	275.06	2.85	1.05	21.6	325.4	172.41	-14.4	-5
Merval (Argentina)	1916.69	1874.33	1908.46	34.13	1.82	76.8	1908.46	828.99	18.3	5.3
Sao Paulo Bovespa (Brazil)	58538.33	57614.92	58535.79	625.84	1.08	55.9	58535.79	29435.11	14.2	17
S & P/TSX Comp (Canada)	11155	11000.17	11155	154.83	1.41	24.1	12912.99	7566.94	-11.6	-2.1
Santiago IPSA (Chile)	3235.86	3203.32	3231.51	28.19	0.88	36	3307.57	2101.1	16.8	13.7
IPC All-Share (Mexico)	29350.04	28978.2	29318.42	218.37	0.75	31	29318.42	16868.66	14.7	12.1
Caracas General (Venezuela)	52758.86	51864.73	51938.04	-771.91	-1.46	48.7	52709.95	33894.41	30.1	13.9
Other Countries										
CASE 30 (Egypt)	6708.27	6662.29	6689.86	34.35	0.52	45.5	8173.54	3389.31	-18.2	n.a.
Tel Aviv (Israel)	985.13	961.86	964.68	-11.22	-1.15	47.3	1002.7	592.07	2.2	7.2
Johannesburg All Share (South Africa)	25438.82	25085.92	25315.86	229.94	0.92	17.7	26154.97	17814.42	-0.9	5.2

*Europe, Australia, Far East: U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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